

Message Text

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PAGE 01 DACCA 04519 120825Z

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ACTION NEA-10

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NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06 IO-10

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SUBJ: SOME MODEST ECONOMIC DECISIONS

REF: A. DACCA 4067 B. STATE 213476

1. SUMMARY. BDG HAS, SINCE COUP, TAKEN SEVERAL MODEST ECONOMIC DECISIONS AND IS CONSIDERING OTHERS WHICH POINT TOWARD FREEING UP ECONOMY. HOWEVER, THESE STILL AMOUNT TO VERY LITTLE. INDEED, OTHER THAN AID APPEALS, NEW GOVERNMENT HAS NOT YET TAKEN ANY BIG ECONOMIC DECISIONS EXCEPT THE POLITICALLY MOTIVATED ONES REPORTED REFTEL A. THE STEPS NOW ANNOUNCED ARE: (A) PARTIAL DE-CONTROL OF FERTILIZER DISTRIBUTION AT UNION LEVEL ANNOUNCED AUGUST 30; (B) REMOVAL OF ALL DISTRIBUTION CONTROLS ON COTTON CLOTH (SEPTEMBER 6); (C) REDUCTION IN CLOTH PRICES (SEPTEMBER 6); (D) REDUCTION IN PRICE OF CEMENT, (SEPTEMBER 6). OF THESE, BY FAR THE MOST SIGNIFICANT IS (B). BOTH (A) AND (B) TEND TO FREE UP ECONOMY AND BOTH ALSO REDUCE THE SCOPE FOR CORRUPTION. END SUMMARY

2. FERTILIZER CONTROLS. FERTILIZER REMAINS SUBJECT TO COMPLEX PRICE AND DISTRIBUTION CONTROLS. THE DISTRIBUTION CONTROLS HAD PROVIDED THAT ALLOTMENTS FOR EACH DEALER IN EACH UNION (SMALLEST LIMITED OFFICIAL USE
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PAGE 02 DACCA 04519 120825Z

POLITICAL UNIT) WERE TO BE MADE BY THANA (NEXT LARGER POLITICAL

UNIT) COMMITTEES; THE UNION-LEVEL RETAIL DEALERS THEN SOLD EACH FARMER UP TO TEN SEERS (20.5 POUNDS) PER ACRE. NOW, THE PRIORITY LIST OF FARMERS WHICH GOVERNED SALES BY UNION-LEVEL DEALERS WILL NO LONGER BE DRAWN UP--ALL FARMERS MAY BUY UP TO THEIR ACREAGE ALLOTMENT. NEVERTHELESS, THE THANA COMMITTEE WILL STILL MAKE "CROP-WISE" ALLOTMENTS OF FERTILIZER FMTO EACH UNION AND THE UNION DELAERS WILL MAINTAIN A RECORD OF THE NAMES, ADDRESSES AND SIGNATURE (OR THUMBPRINT) OF EACH BUYER. IN SUM, ONE LEVEL OF BUREAUCRATIC DECISION-MAKING WITH PARTICULAR SCOPE FOR CORRUPTION (THE THANA COMMITTEE'S PRIORITY LISTING OF FARMERS) HAS BEEN ELIMINATED. NEVERTHELESS, THE RICHER, LARGER LAND-OWNERS WILL CONTINUE TO BENEFIT MOST FROM THE SYSTEM.

3. COTTON CLOTH. ALL DISTRIBUTION CONTROLS HAVE BEEN REMOVED FROM ALL TYPES OF COTTON CLOTH (EXCEPT CELLULAR AND DRILL WHICH ARE BOUGHT EXCLUSIVELY BY THE MILITARY). THE (CONTROLLED) PRICES ARE TO BE LOWERED SELECTIVELY FIVE TO TEN PERCENT. UNDER THE FORMER DISTRIBUTION ARRANGEMENT, LAST AMENDED JULY 1, 1974, COTTON CLOTH WAS ALLOCATED AS FOLLOWS: 50 PERCENT OF PRODUCTION TO THE CONSUMER SUPPLY CORPORATION (CSC); 20 PERCENT TO THE COOPERATIVE MARKETING SOCIETY (CMS); AND 30 PERCENT TO DEALERS APPOINTED BY THE DISTRICT COMMISSIONER AND SUB-DIVISIONAL OFFICERS. NOW, ANY DEALER MAY BUY ANY AMOUNT, AS MAY THE CSC AND CMS. ACCORDING TO K. Z. ISLAM, DIRECTOR, FINANCE, BANGLADESH TEXTILE INDUSTRIES CORPORATION (BTIC), (ACTING CHAIRMAN, WITH M.K. ANWAR IN WASHINGTON - REFTEL) BTIC HAD BEEN SEEKING THIS AUTHORITY FOR THE PAST TWO YEARS TO SET ITS OWN PRICES AND TO REMOVE DISTRIBUTION CONTROLS. ACCORDING TO ISLAM, MAJOR EFFECTS OF REMOVAL OF CONTROLS WILL BE PRICE REDUCTIONS AS TRADE RETURNS TO REGULAR CHANNELS WITH FEWER POLITICALLY CONNECTED MIDDLEMEN INVOLVED AND GENERALLY MORE EFFICIENT DISTRIBUTION OF CLOTH. SCOPE FOR CORRUPTION WILL ALSO BE REDUCED, HE NOTED. MILLS HAD LARGE STOCKS PILING UP WHICH ARE NOW EXPECTED TO BE SOLD. PRICE CUTS WILL REDUCE BTIC PAPER EARNINGS, BUT PORTION OF FY 74 AND 75 PROFITS RESULTED FROM CREDITING BTIC WITH VALUE OF UNSOLD STOCKS.

4. CEMENT PRICE REDUCTION. THE PRICE TO NON-GOVERNMENT DEALERS OF BOTH DOMESTICALLY PRODUCED AND IMPORTED CEMENT HAS BEEN REDUCED FROM TAKA 1100 TO TAKA 1000 PER TON. THE CONTROLLED RETAIL PRICE HAS BEEN LOWERED FROM TAKA 67 TO TAKA 62 PER BAG. DISTRIBUTION LIMITED OFFICIAL USE LIMITED OFFICIAL USE

PAGE 03 DACCA 04519 120825Z

TION CONTROLS REMAIN UNCHANGED. THIS REDUCTION APPEARS TO REFLECT A GENERAL INTEREST IN CONTINUING TO CHECK INFLATIONARY PRESSURES; BENEFIT URBAN MIDDLE-CLASS; AND ENCOURAGE MORE RAPID DRAWDOWN OF STOCKS (HOWEVER, THE CAUSE OF EXCESSIVE STOCK PILING UP IS LARGELY THE CLUMSY DISTRIBUTION SYSTEM). IN ANY CASE, THE BLACK MARKET IN CEMENT CONTINUES.

5. DENATIONALIZATION UNDER DISCUSSION. ONE OF THE FIVE-MEMBER DELEGATION OF PRE-NATIONALIZATION JUTE MILLS OWNERS WHO CALLED ON THE PRESIDENT AUGUST 28 TELLS US THAT A PARTIAL DENATIONALIZATION BEGINNING WITH JUTE MILLS FORMERLY OWNED BY BENGALIS IS UNDER SERIOUS DISCUSSION WITHIN THE BDG.

6. NEWSPRINT SALES MISSION TO INDIA. A SENIOR OFFICIAL OF THE BANGLADESH PAPER AND BOARD CORPORATION AND THE GENERAL MANAGER OF THE KHULNA NEWSPRINT MILL (KNM) ARE REPORTEDLY IN DELHI FOR DISCUSSIONS OF SALES OF NEWSPRINT TO INDIA. KNM STOCK OF NEWSPRINT, MET 19,000 TONS, EQUAL ALMOST SIX MONTHS PRODUCTION. KNM PRODUCTION GREATLY EXCEEDS DOMESTIC CONSUMPTION. EXCESS PRODUCTION, ONCE SOLD TO WEST PAKISTAN AND THEN TO INDIA UNDER BARTER AGREEMENTS, HAS BEEN PILING UP SINCE BARTER TRADE WITH INDIA CEASED LAST YEAR. PROBLEM OF SALES TO NEARBY INDIA (RUMORED TO BE ONLY PRODUCER ON EARTH OF LOWER QUALITY NEWSPRINT THAN BANGLADESH) MUST BE PRICE.

7. COMMENT ALL OF THIS STILL AMOUNTS TO VERY LITTLE INDEED. EXCEPT FOR SEEKING CONTINUING AID FLOWS, NEW GOVERNMENT HAS NOT TAKEN ANY ECONOMIC DECISIONS OTHER THAN POLITICALLY MOTIVATED ONES REPORTED REFTEL A. IN EFFECT, MINISTRIES ARE MERELY TAKING MINOR DECISIONS LARGELY IN LINE WITH PRE-COUP POLICIES (FOR EXAMPLE, CLOTH DECONTROL FOLLOWS MAY 14 YARN DECONTROL, REPORTED DACCA 2414.) NEVERTHELESS, THE ACTIONS AND DISCUSSIONS DESCRIBED ABOVE DO POINT GENERALLY TOWARD MORE EFFICIENT USE OF NATIONALIZED PRODUCTIVE CAPACITY AND MODERATELY GREATER RELIANCE ON FREE-MARKET FORCES. CHANGE IN FERTILIZER DISTRIBUTION IS VERY SMALL, AND WE AWAIT FURTHER STEPS TO "GREATLY LIBERALIZE" DISTRIBUTION MECHANISMS FOR ALL ESSENTIAL COMMODITIES AS SUGGESTED BY AMBASSADOR-DESIGNATE SIDDIQUI (PARA 3, REFTEL B).
BOSTER

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